Nomad Foods Limited

First Quarter 2016 Financial Results Call for Investors

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CORPORATE PARTICIPANTS

Stefan Descheemaeker, *Chief Executive Officer*

Paul Kenyon, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Jon Tanwanteng, *CJS Securities*

Rob Dickerson, *Consumer Edge Research*

PRESENTATION

Operator:

Good day everyone and welcome to the Nomad Foods First Quarter 2016 Earnings Conference Call. Today's conference is being recorded. On the call today we have Paul Kenyon and Stefan Descheemaeker. At this time, I'd like to turn the call over to Mr. Paul Kenyon. Please go ahead.

Paul Keyon:

Thank you Operator, and good morning, good afternoon everybody. Before we start I would as usual like to draw your attention to the disclaimer on Slide 1 of the presentation. I don't propose to read it out but do draw your attention to it.

With that, I will turn over to Stefan. Stefan?

Stefan Descheemaeker:

Thank you Paul. Good morning, good afternoon everyone and thank you for joining us on our first quarter 2016 results call. I will start by giving you a brief update on progress versus our strategy so far in 2016. Turning to Slide 3, I will take a global view of each element of our strategy in turn.

We are executing our strategy, i.e. to refocus on core categories and integration of Findus in a very disciplined way and we are starting to see positive results.

First of all, we remain confident in our ability to deliver the projected synergies from combining the Iglo and Findus businesses and our integration process remains on track. I will provide additional detail later in our presentation but can tell you that we have delivered just under €3 million in synergies so far on an annual run-rate basis, which equates to around €0.75 million in the first quarter. We continue to make steady progress through the consultation process in Sweden and, subject to a successful conclusion of that process, remain on track to cease operations at the Bjuv site by the end of 2016.

As is only to be expected from an acquisition of this scale and complexity, we have inherited some operational issues from the former owners of Findus, most notably regarding product supply from the Bjuv factory, which impacted sales in the first quarter due to a drop in service levels. Action plans are in place to resolve this by the end of the second quarter.

Beyond Findus, we continue to see opportunity and believe we are well-positioned to execute both bolt-on synergistic acquisitions in European frozen, as well as broader strategic transactions.

We continue to benefit from our strong leadership position by a factor of 2.7 times versus the number two player, and while the frozen market that we play in declined slightly by 0.3% by value in the quarter, we remain confident in the resilience of the frozen category in the face of challenging market conditions and that our strategy is the right one to stabilize the top line. In that regard, I was pleased to see a further slowing of the rate of decline in sales in Q1.

Turning to our iconic brands, as I commented in my year-end presentation back in March, we benefit from high levels of spontaneous brand awareness, averaging just over 80% across our top seven markets, but we have not done enough to convert that strong equity into improved sales performance. Following a rigorous review of our agency arrangements, we have appointed a new advertising agency who will partner with us in rejuvenating our advertising, most notably through the revival of our historic icons such as the Captain. We have already reintroduced the Captain in six markets utilizing previous copy, namely the UK, Germany, Italy, Austria, Netherlands and Belgium, and we look forward to rolling out the successful vegetables advertising that had been piloted in Sweden and Spain in the coming quarters.

As discussed in detail on our last call, we have moved our focus onto our must win battles and although we are still at early stages, we are beginning to see some encouraging signs. For example, in Italy, one of our must win battles is our Sofficini savory pancake business. This saw a sales increase of 21% against Q1 last year, driven by a product renovation launch which allows these products, which are typically fried, to be baked in the oven yet deliver the same crispy coatings, thus delivering a health benefit for consumers.

In Germany, where fish recipes were highlighted as a must win battle, we have seen an increase in sales of 7.4% of those products, driven by the introduction of a salmon variant, a successful free-gift promotion and the reinstatement of our historic advertising.

As we continue to drive for greater cost efficiency across the Group, we are moving our media buying to one of the largest agencies in Europe as we continue to realign and rationalize our media strategy

The management team remains extremely focused on delivering against our strategy with the clear priority being the progressive stabilization of the top line, as well as delivering the projected synergies from the Findus acquisition.

Moving on to financial performance, I am pleased to report we further slowed the pace of decline in the quarter with a like-for-like drop in sales of 6.1% versus the updated rate of 7.0% in the fourth quarter. This reflects calendar alignment of Findus' Q4 financials, which Paul will explain in a few minutes, and was slightly ahead of our internal expectations to be in line with the performance in the fourth quarter of last year. Adjusted EBITDA margin was slightly down year-on-year at 18.2% as the impact of volume declines were partly offset by tight cost control in A&P and Indirect overheads, including synergy delivery.

Finally, thinking about the multiple organic growth drivers for the business, I have already talked about the actions that are in place to restore the business to top line growth. We believe the fruits of that work, including our revenue management program, should begin to show themselves from the second quarter of 2016 onwards as we progressively slow the rate of decline quarter-on-quarter. As I said before, I am encouraged by the fact that we have slowed the rate of decline by 1% in each of the last two quarters.

Beyond that, we have an enlarged product portfolio with the opportunity to roll out successful products across a wider geographic footprint, such as Sofficini which we rolled out to Belgium at the end of 2015. This has been well received by our Belgian customers and we are now looking at opportunities to roll out a family size pack. Sofficini is also something we are going to copy with pride in our Austrian market over the coming months.

We have a highly experienced team working to improve efficiency and productivity across our supply network and our indirect cost base. Out of that will come strong cash flows that we can reinvest in the business or use to build out our European frozen footprint.

With that, I will hand over to Paul who is going to cover the financials in more detail.

Paul Kenyon:

Thank you Stefan, and good morning, good afternoon everyone.

Before turning back to the presentation, please note that the financial information represents pro forma as adjusted figures. As communicated at the last results presentation, we have now moved onto a consistent calendar basis for the entire group for the first quarter 2016 results and have done the same for the comparative period in 2015, so both sets of quarterly information are for January to March of their respective years for the entire group. Furthermore, to aid the investment community in their modeling, and to ensure that everyone is working from a consistent basis, we have also provided as an appendix to this presentation the updated pro forma as adjusted financial information for 2015 for the Nomad business as a whole on a consistent calendar basis, as well as providing the breakdown by quarter. As a reminder, in our last earnings presentation, we presented financial information for 2015 which covered the 12 months to September 2015 for the Findus business and the 12 months to December 2015 for the Iglo business, those periods being the last audited set of financial information available for the respective parts of the Group.

As a result of adjusting the Findus business from a September 2015 year-end to a December 2015 year-end, EBITDA for the Group has moved from €345 million to €331 million which is due to three factors, each worth just over €4 million: firstly, acquisition accounting adjustments; secondly, double-running costs associated with the commissioning process for a new automated production and warehousing facility in Sweden required to complete the closure of the Helsingborg plant, inherited from the previous owners; and thirdly, transactional FX impacts due to the weakening of the Euro, Swedish krona and Norwegian kroner against the dollar.

With that, I will turn to the first quarter results. All figures have been adjusted for exceptional items, restructuring and transaction-related items and all of my comments from hereon will refer to those pro forma as adjusted numbers.

Turning to Slide 5, we thought that it would be helpful to restate the quarter-on-quarter growth for the Group that we originally published as part of the CAGNY conference presentation onto a consistent calendar basis for the Nomad Group as a whole. While the absolute numbers have moved slightly, the rate of improvement remains the same with the decline slowing at about 1% each quarter, from an 8% decline in the trough of Q3 2015 to a 7% decline in Q4 and a 6.1% decline in Q1 2016, which is a slightly better performance than we were guiding to at the Q4 results. Our expectation remains that we will continue to see a progressive improvement in the rate of decline through the balance of the year as the various elements of the new strategy start to impact the market: from the new creative work airing towards the end of the second quarter through the implementation of the new promotional tactics in the third quarter to the launch of the first wave of core renovation products in the autumn cabinet reset which will mainly impact sales in the fourth quarter.

Turning to Slide 6 we show the year-on-year performance for first 3 months of 2016. Net revenue was down €23.7 million or 4.2%, year-on-year. Adjusting for currency impacts, the exit from Russia, an additional trading day in Q1 2016 due to the leap year, and the business acquisition of La Cocinera in Spain, the like-for-like decline was 6.1%, a 0.9% improvement on the rate of decline in the fourth quarter. As has been the case in the past few quarters, the decline in sales was driven by the Group's three largest markets, namely the UK, Italy and Germany, although each of these markets again showed reduced rates of decline year-on-year compared to the prior quarter.

Gross profit declined €11.2 million, driven primarily by lower sales volumes. Gross margin declined by 0.7%, driven by a slightly adverse mix and the dilutive effect of the La Cocinera acquisition.

A&P investment was €2.9 million lower as the group rephased advertising spend to align with the anticipated launch of the new advertising.

Indirect costs were €1.5 million lower year-on-year due to synergy realization and benefits from the Group's lean reorganization program.

The effective tax rate for the quarter was 23%, consistent with Q1 2015. Earnings per share decreased by €0.03 year-on-year due to the decrease in profit.

Slide 7 contains the comments that I have just made, so I will not repeat them now.

Turning to Slide 8, I will give a little more color on the sales performance. Adjusting for the exit from Russia, the additional trading day and the slight weakening in the sterling and Norwegian kroner rates gives a like-for-like sales comparator of €573.8 million. As a reminder, approximately 80% of our sales are concentrated in the UK, Italy, Germany, Sweden, Norway and France so I will focus my comments on those markets.

The UK declined by 6.1% on a like-for-like basis in the quarter, a slight improvement on the 6.4% decline recorded in Q4. This was against a background of the UK frozen market declining by 0.9% year-on-year. The UK grocery market remains extremely challenging with shopper behavior and changing retailer strategies continuing to represent headwinds for the Birds Eye business. Shoppers continue to exhibit value-seeking behavior, driving continued growth in hard discounters with Aldi and Lidl up 18.6% and 8.8%, respectively. The top four retailers, who account for around 70% of our UK business, saw their sales decline by 4.4% in Q1 as they competed for share of shopper spend and loyalty. They remain highly focused on price but are reducing their reliance on promotional spend in favor of rebalancing to everyday low price strategies. Our new strategy, to focus behind our core products and increase base sales, is showing encouraging early signs. Birds Eye reported a net sales performance ahead of volume for the first time since the second quarter of 2014, due in part to net revenue management initiatives.

Italy was again the largest driver of the overall sales decline with a drop of 10.5% year-on-year, an improvement on the 15.4% decline seen in Q4, although the reasons for the decline remain the same as described at the Q4 results. The economy and consumer confidence remain extremely fragile in Italy which has impacted the frozen food market as a whole, with a 3.3% decline seen in the quarter while private label grew by 3% in the same period. This, combined with a continuation of the strong pressure on customer margins prolonged the 2016 annual agreements negotiation round, which limited our ability to access critical Easter promotional leaflets in two major customers, thus impacting overall results. This has been further exacerbated by the shortage of hake fillets in Italy which accounts for 30% of the sales decline in Q1. Excluding hake, our must win battle platform showed a decline of 5% year-on-year, which, although still negative, is a clear improvement in run-rates across all supported platforms.

Among the segments with improved run rates, positive highlights were the Sofficini pancakes range mentioned by Stefan, which grew by more than 20%, thanks to the oven-cook renovation launch, as well as fish fingers which were relaunched at the end of 2015, and showed flattening results after negative trends in 2015. The implementation of the new must win battles strategy coupled with stronger and better media and promotional support remain the focus of the local management team for the quarters to come.

Germany declined by 9.2% year-on-year which again saw a modest improvement versus the 9.7% decline seen in Q4. The market grew by 0.4%. While the 360-degree marketing support of our must win battles shows some early signs of success in fish, the Q1 results were overshadowed by a customer-specific issue which led to a halt in shipments for the full quarter and where talks are under way to resolve the situation for the second half of the year. Stripping this effect out of the comparison, Q1 saw strong growth in our must win battles of fish fingers, fish recipes and coated fish, although vegetables, where the level of product differentiation is lower, continued to be impacted by private label competition. A complete overhaul of the vegetables assortment is planned for launch in Q4 2016 to combat this.

Sweden like-for-like net sales declined by 3.1% year-on-year in a market up 5.2% as performance issues in the Bjuv factory and distribution center impacted on customer service, reducing availability in-store to as low as 65%. The performance issues arose during the commissioning process for an automated production and warehousing facility inherited from the previous owners. Resolving these issues has been a major focus for the Group but it did result in some customers cancelling promotions which impacted net sales in the quarter. The performance began to recover in the latter part of the quarter although we expect some impact in Q2 until service levels completely recover.

Norway like-for-like net sales declined by 2.3% year-on-year in a market that was up by 2%, primarily in the retail natural fish business where the Group faced strong price competition from local producers sourcing in Norwegian kroner. Findus sources its fish largely in US Dollars and hence becomes disadvantaged when the Norwegian kroner devalues. In addition, the sales performance was impacted by the renegotiation of terms since the merger between ICA and the Co-Op in May 2015. However, the foodservice channel continues to perform well in Norway, mainly driven by an increase in supply to our key contractors.

France grew net sales by 5% in Q1 despite the price war within retailers and a market that was down 1.2% in value. The growth was mainly driven by the Findus brand and most notably in the core business due to a significant level of innovation around these portfolios. Examples of these innovations include portionable natural fish and a microwaveable potatoes range.

Of the €6 million decline in the other countries, €2.4 million can be attributed to Austria which declined by 8.2%, primarily driven by the bankruptcy of one of our customers in the latter part of 2015, and €1.4 million can be attributed to the Netherlands where we are facing tough competition from private label who are reducing prices to an uncompetitive level across most of the range but particularly in spinach and fish fingers. We remain confident that our strategic initiatives with the help of our planned media campaigns will be able to combat this.

Lastly, the business acquisition block relates to the incremental sales arising from the acquisition of La Cocinera in Spain in April 2015.

Turning to the margin performance on Slide 9, we analyze the gross profit movement year-over-year by key driver. Excluding the impact of exited markets, the additional trading day and FX rates, our like-for-like gross profit comparator is €179.3 million. Working across the page from this gross profit comparator, volumes were down slightly more than net sales on a like-for-like basis, driving a reduction in gross profit of €12.2 million. The business also saw negative mix in the quarter which impacted gross profit by a further €2.2 million. This was driven by the hake fillet shortage in Italy, which is an attractive business for the Group, coupled with the growth of industrial and foodservice channels in Sweden and Norway which typically deliver lower-than-average margins. Pricing and promotional spend was €6 million better year-on-year, driven by the effect of implementing price increases at the start of the year to offset raw material inflation. Performance was also impacted by lower promotional spend in Sweden as a result of the product supply issues, and in Italy as a result of the shortage of hake.

Cost of goods inflation reduced gross profit by €4.3 million, driven by weakening of the euro against the US dollar, the operational issues in Sweden and lower volumes which drove lower fixed cost recoveries. This was in part offset by lower distribution costs and favorable buying prices across the portfolio.

Business acquisitions contributed €0.9 million.

Moving on to the EBITDA bridge on Slide 10, the like-for-like EBITDA decline was driven by the impact of lower gross profit which has been partly offset by savings in advertising and promotional spend as the group rephased advertising investment to align with the anticipated launch of the new copy. Indirect costs were also lower year-on-year, driven by the reasons I highlighted earlier.

In terms of EBITDA margin performance, the business saw a 0.3% decline year-on-year driven by the decline in sales and gross margin due to the reasons I described earlier.

Slide 11 shows the pro forma as adjusted cash flow. The key drivers in the operating cash flow performance, aside from the EBITDA movement, are working capital which showed a modest outflow, primarily due to a lower bonus accrual aligned to the performance in the 2015 financial year. To clarify, bonuses for part of the Group are paid in April of the following year. Hence at the end of Q1 2015, the Group had creditor balances associated with the 2014 bonus accrual. By comparison, at the end of Q1 2016, the Group had lower bonus-related creditor balances year-on-year due to the required performance targets not being met in 2015.

Capital expenditure was held to around €6 million for the quarter as tight control was maintained pending the conclusions of the manufacturing footprint review.

Tax paid has decreased by €7.1 million due to a combination of a one-off refund of cash tax worth €3 million in Germany in Q1 2016 coupled with lower overall profitability in 2015. Our expectation for cash taxes in 2016 remains in the low- to mid- €30 million, equivalent to an effective cash tax rate of around 19%.

Restructuring and non-recurring cash flows in Q1 2016 of €16.5 million were largely driven by costs associated with the integration of the Findus Group, the implementation of the Nomad strategy and the restructuring programs in a number of the Group's factories.

The operating cash flow conversion year-over-year for the first quarter was 86%, broadly in line with our strategic target of around 90%.

The free cash flow pre-restructuring and non-recurring costs delivery of €68 million is consistent with our €200 million annual target.

LTM, or rolling 12-month operating cash conversion was lower than our typical level at 79% of pro forma as Adjusted EBITDA due to a combination of lower bonus accruals and higher inventory in the Findus markets to cover planned factory transitions, for example the closure of the Helsingborg plant.

I will now hand you back to Stefan.

Stefan Descheemaeker:

Thank you Paul.

Lastly, our synergy target remains unchanged at €43 million to €48 million. As we have previously commented, the synergies will be relatively modest in 2016 and phased towards the back end of the year.

On personnel-related synergies we need to go through consultation processes associated with our planned reorganizations, and I am pleased to announce that the consultation processes for the integration of the French and Belgian sales and marketing teams were both completed in the first quarter. Following the completion of the consultation processes, we then have notice periods to work through; hence, the synergies will only be realized towards the end of the year.

On procurement, while we commenced the integration process on Day 1 of the acquisition back in November last year, it is important to remember that two of our largest categories are seasonal in nature. So for vegetables, we have one crop per year in the autumn and we were therefore already committed to terms for the 2016 harvest. For fish, there are two main fishing seasons, one in the spring and one in the autumn, and again, we already had commitments in place for the spring season so the synergies will flow later in the year.

Commercial synergies, by their nature, take longer to realize as product launches have to be negotiated through the trade. Also, we have commercial overlap to work through, most notably in France in the fish portfolio.

In total, we realized synergies of just under €3 million on an annualized run-rate basis which equates to around €0.75 million in the first quarter. The bulk of these synergies have come from indirect cost savings in France, Belgium and Norway as well as procurement cost savings.

So in summary, as Paul has shown, while the commercial market environment has remained challenging in Q1, we continue to believe that we have the right actions in place to stabilize the business, and we are seeing some encouraging early signs that our strategy is working and expect to see progressive improvements from the next quarter onwards. As I said earlier, I am encouraged that both of the last two quarters have seen a slowing of the rate of the decline from the bottom in Q3 of last year. The capability of the business on the cost and cash disciplines remains strong, and we remain optimistic that we will be able to stabilize the sales line whilst maintaining our strong track record of margin and cash delivery.

The Nomad team is coming together well and I am extremely pleased with the level of collaboration across all our businesses as well as the determination of all our employees to deliver flawless execution of our strategy.

With that. I will turn the session over to Q&A. Operator, back to you.

Operator:

If you'd like to pose a question, please press the star key, followed by the digit one on your touch-tone telephone. If you are using a speaker phone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, that's star, one to pose a question.

We'll have our first question from Jon Tanwanteng from CJS Securities.

Jon Tanwanteng:

Good morning gentlemen. Nice quarter and thank you for taking my questions.

Stefan Descheemaeker:

Good morning.

Paul Kenyon:

Hi Jon.

Jon Tanwanteng:

Can you provide the pro forma Q2 revenues from last year?

Paul Kenyon:

So, we provided that in our presentation. Slide 14 shows the Q2 2015 pro forma as adjusted financial information for the whole P&L, and the pro forma revenue for Q2 2015 was €488 million.

Jon Tanwanteng:

Got you. Okay, thank you, that's helpful. Then, seasonally, Q2 should be weaker, right? Do you have the percentage usually of the year that that usually is?

Paul Kenyon:

So, it is normally something like 26/27% in Q1, 23/24% in Q2, 23/24% in Q3, 26/27% in Q4. So there's not a huge amount of seasonality but we do see a slight drop-off in the summer, partly because in southern Europe, in particular, people eat outdoors and therefore our oven-able products are less relevant to them, partly because a little more of the population goes to ice cream.

Jon Tanwanteng:

Okay, that's helpful, thank you. Then, any color on the macro-environment, you know, currency and pricing trends heading into the June quarter? What have you seen so far?

Paul Kenyon:

So as I said in the script, Jon, I think input prices so far have been reasonably benign. As we communicated with the fourth quarter results last year, we are seeing the weakness of the euro, krona, Norwegian krona and Swedish krona, impact cost of goods to varying degrees across those markets, and we guided that we would see that impact from Q4 last year through to the end of Q3 this year. As you can see from Q1, we've largely managed to offset that by pricing cycle.

Jon Tanwanteng:

Okay, great. Then, any update on the environment for M&A? What are you seeing out there, either valuations or opportunity? Can you just provide an update there?

Stefan Descheemaeker:

To be fair, Jon, we've remained very focused, obviously, on all the operations, so that was really the priority for us. This being said, you know, when you see the prices, the prices remain quite competitive. The good thing is—and that's what we're trying to do with the acquisition of Findus, trying to do two things. One is obviously to generate the right level of synergies, which will help us, obviously, to stabilized EBITDA, to improve the EBITDA, so to further invest in the business, but beyond this, it should serve us as a model for further integration. So, even if prices remain high, if you're coming with the right level of synergies, 6, 7, 8, 9% of sales, then obviously you're becoming—you're creating a competitive advantage, whatever the kind of price, in the imminent price environment you have at that time. So, that's operated today.

Jon Tanwanteng:

Got you, thanks. Then, if it were to occur, would a Brexit actually impact your operations in any way?

Paul Kenyon:

We obviously have planning in place for Brexit, Jon. I think the relevant things to bear in mind, if you're thinking about modeling the impact of Brexit on the business, obviously, there would be some currency volatility for sterling as the existing country, possibly for the euro, as well, who knows? So we would see currency volatility. Clearly, we hedge out between nine and 12 months, so we're hedged for the rest of the year against any transactional currency volatility, so it would largely be confined to translational effects, which we always call out.

From an operational perspective, there is a two-year period of grace to renegotiate trade contracts between the EU and any departing country, so we would have to time to plan for any tariff barriers that might result. The key exposure, I suppose, is the UK to Europe where we import about €120 million a year of fish and we export about €40 million a year of poultry. Correcting that €80 million net imbalance would require us just to put a fish processing line into our UK factory. We would be able to complete that well within the two-year period should it look like tariff barriers were being erected. So, I think we're well able to cope with any potential impact on our business.

Jon Tanwanteng:

Okay, great. Then, finally, any update to your free cash flow outlook and the costs associated with the integration and the closing of the facility in Sweden?

Paul Kenyon:

No change. As I said in the presentation, the €68 million delivered in Q1 is consistent with delivering the €200 million for the full year, and our expectation is still to spend around—invest around 60% of that, or €120 million, into restructuring and integration costs associated with the Findus acquisition, and other restructuring through the business.

Jon Tanwanteng:

Great. Thank you very much again.

Paul Kenyon:

Thank you.

Operator:

We'll have our next question from Rob Dickerson, Consumer Edge Research.

Rob Dickerson:

Thank you and good morning. I just have a few easy questions, hopefully. Just to, I guess, follow up with the last one with respect to the €200 million free cash flow for the year, the €120 million in restructuring and kind of other costs, could you just provide potentially just a bit more color as to where that actual cash goes? I mean, is it for—are we talking severance or is it larger supply chain initiatives, you're investing in your entire supply chain, not just the costs coming off of the Swedish plant? Thanks.

Paul Kenyon:

Sure, Happy to do that. So, we have forecast €120 million. Of that, €50 million is directly associated with the proposed closure of the Bjuv factory, where we are currently working through the consultation process with the unions and workforce at that plant. That comprises both severance pay, but also necessary investments associated with the transfer of production.

We then have probably about €25 million of integration costs related to our IT platform. So, Nomad benefits of its old Iglo business from a single-instance SAP platform, and that is a critical part of our operating model. The Findus businesses—and we knew this from the diligence prior to acquisition—have a very old IT estate, in some cases out of support and rather fragmented, so we have to roll out our SAP platform across the acquired the businesses, and we are currently blueprinting that, ready to go later this year, and that will flow into next year, so the cost this year is probably going to be around €25 million. There will be a cost next year, but it will be smaller than that, depending on how far we get through the integration program on IT this year.

You've got another €20 million regarding restructuring in the old Iglo business. So, clearly, we saw volumes fall away quite sharply last year and we have, as a result, got restructuring programs running in three of the four legacy Iglo plants. We also have the lean program that Stefan kicked off when he arrived rolling through the sales and marketing businesses as well, so there's about €20 million going in there.

The rest, so the remaining I suppose €25 million, about 15 of that is integration costs associated with synergy delivery at Findus, so clearly that will be severance costs associated with the indirect synergies projected in our forecast and procurement as well, so there are some contract procurement and contract legal resources to assist us in renegotiating and papering the contracts as we roll through the combining.

Lastly, you have costs associated with our New York listing: getting to SOX compliance in Year 1, so we have a project running for that because we have a very limited time to deliver Sarbanes-Oxley compliance and other kind of corporate development stuff.

So that's the breakdown of the 120.

Rob Dickerson:

Okay, great. That's actually very helpful. So then would it be fair to say, although this is very rough math, but just out of the buckets you just went through should we expect as we get into '17, obviously, it's a fair amount of time away, but I have questions on this all the time from investor base. Is maybe half of that kind of rolls off as we get into next year? Is that fair?

Paul Kenyon:

So we would expect—well, so absent other acquisitions and other factory closures, we would expect a much lower level of spend next year, so we would be looking probably more at low tens of millions than anything like 120. So we would expect to see materially lower costs in '17.

Rob Dickerson:

Okay, great. That's great. Then next, it sounded like around your Q4 call and I guess when you presented at CAGNY that part of the short-term plan, the attempt to stabilize volumes was to maybe increase promotional spend in certain areas, right? Just try to block and tackle where you can with the retailers. In Q1 you're pointing to increased pricing and kind of a reduction in that promotional spend. Was there anything that changed during the quarter that caused promotional spend to kind of go down versus up outside of kind of that mix component you were talking about and the inventory issues, or not?

Paul Kenyon:

So I think I'll give you my view and then Stefan could probably provide a broader, perhaps more retailer-centric view.

In Q1 you had a couple of one-offs that reduced promotion levels. The first was the Swedish supply issues, so as a result of the Swedish supply issues we agreed with a number of retailers that it made sense to cancel promotional slots because product availability didn't support that level of demand. In Italy we have had the shortage on hake fillet which is an industry-wide issue but has impacted our business, so again we pulled promotions on hake to maximize the return from the available supply. So there's a couple of one-offs going through.

You have got pricing in Q1 which is a result of our negotiations with the trade around the change in dollar-euro coming through as well.

We have selectively in some markets maintained or increased levels of promotion where we think it's sensible to keep people with us pending the launch of the new strategy, but I think slightly better result than we had perhaps expected back at the Q4 results, but Stefan, you should chip in.

Stefan Descheemaeker:

Again, it's early days so it's a bit difficult to be more specific than this, but it's very clearly a focus point for us in the future. So some of the countries, in some of the countries the promotion level is still way too high. But again, things will happen, will not happen overnight and again, it has to be considered together with all the other elements: with quality, with pricing, with obviously baseline, with advertising. So we're going to do everything in sync but what we see at least, even if some of the results are one-offs, we see some encouraging results. But again, more to come in Q2/Q3.

Rob Dickerson:

Okay, great. That's fair. Then just lastly with respect to kind of the rate of sales decline year-over-year cadence throughout the year, you're saying you're about 6% down like-for-like in Q1 and it's supposed to get better in Q2 to Q3, etc. Should we be thinking you're down kind of that 6 in Q1, maybe you're down 4 in Q2? Hopefully with innovation coming in the back half of the year in Q4 maybe then Q4 the frozen department, per se, in your end market doesn't really decline. Like the goal is to finally get to the flat organic sales year-over-year in Q4. Should the market be thinking that for the year we're down 3%, let's say, like-for-like, or what?

Stefan Descheemaeker:

It's a good guess, I appreciate, and I guess you will appreciate my answer which isn't changed. We said and we are going to do what we're going to do which is we said Q1 should be in line with Q4; actually it's a bit better, which is fine. Q2 should be better than Q1. Q3 same for vis-à-vis Q2, and Q4. So, at this stage it would be quite presumptuous to exactly guess what the consumer is going to do. The only thing we can see is, number one, the rate of decline is moving the way we thought it would. That's good news. Second, we can also see that must win battles, and a good example is Italy that Paul mentioned, where the rate of decline has moved from 15 to 10 but within the 10 the must win battles are in the region of minus 5%. So again, not stable yet and still a long way to go but it's moving in line.

So the point is we're very focused on the consumer. At the end of the day the consumer is the one that is going to decide how fast the must win battles will move, will make progress, and also how fast the other categories will decline. Because when you decide that you're going to focus on 70% of your business, you need to be consistent which means that the 30% or the rest of the business will be less well-served obviously, or differently. So that's also a major decision.

Long story short, long answer to your question and to your best guess, but we're not changing our forecast and we're going to focus more than ever on our strategy because we think what we're seeing is early signals that it's taking off.

Rob Dickerson:

Okay, great. Great answer. Thanks a lot.

Stefan Descheemaeker:

We're not going to cut corners. We're going to do this systematically.

Rob Dickerson:

Okay. Well, keep up the good work. I'll pass it on.

Stefan Descheemaeker:

Thank you.

Operator:

We have no further questions in the queue. I'll turn the conference back over to Mr. Stefan Descheemaeker for any additional or closing remarks.

Stefan Descheemaeker:

Thank you Operator. Let me finish by thanking you all for attending the call today. So while I take encouragement for the slowing of the rate of decline and the progress made on implementing our strategy so far, as I just said there is still much to do: remain focused on the key objectives for the year. Firstly, to stabilize the top line. Secondly to deliver the predictive synergies, and thirdly, if available, to execute a highly synergistic deal in European frozen.

With that, I wish you a good day and hand back to the Operator. Operator?

Operator:

That does conclude today's conference. Thank you for your participation. You may now disconnect.